

AR14



## FINANCIAL REPORT

FOR THE PERIOD ENDED DECEMBER 31,



THE TWO SIDES OF OUR COMPANY



**HAYES-DANA INC.**

ST. CATHARINES, ONTARIO L2R 7K9

March 7, 1981

To Our Shareholders:

We are pleased to provide you with the Company's first report reflecting our new fiscal year end — December 31, 1980. As you were advised last December, the Company selected the end of the calendar year to facilitate comparisons with available market information relating to our growing industrial and aftermarket divisions. Due to the brevity of the period covered, this report provides the financial position of your Company only.

Sales for the four months ended December 31, 1980 were \$71,781,000. Although down slightly from the \$73,923,000 for the comparable period of 1979, the improving trend that began in September and that was reported to you in our letter of December 10, 1980 has continued not only through to year end but also into the first two months of 1981.

Earnings for the four months were \$96,000 or 2¢ per share as compared with the December 31, 1979 period of \$1,158,000 or 19¢ per share. The reduction from the 10¢ per share reported to you for the three months ended November 30, 1980 is due to the normal low production levels in December when most of our facilities schedule holiday shut-down periods. In addition, because of our new year end, the cost of these holiday periods, normally absorbed over a twelve month fiscal year, were all expensed in December. It should be noted that after paying dividends, cash flow from operations amounted to 29¢ per share for the four month period.

Comparing the results with last year, profits were adversely affected by a reduced level of sales from our well established Forge, Drive Train and Agricultural Parts Plants. Although these lower sales were partially offset by the previously announced new frame business, the current level of customer requirements has not allowed this business to reach its potential profit levels. Our frame plant is

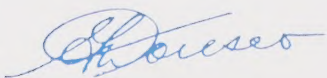
currently operating at 40% below normal levels as the truck manufacturers adjust schedules to match the lower volumes of light truck sales. High interest rates and inflation continue to restrict all new truck sales.

Sales from our aftermarket parts and service operations continue to show growth. Sales in the western provinces are being affected by the Federal Government's recently announced energy policy and the resultant cut-back in oil and gas exploration. We are hopeful that these present difficulties are only temporary and look forward to a return to above average growth rates in this market.

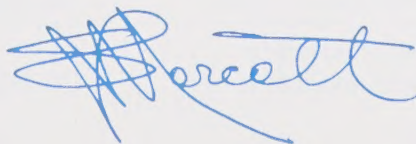
Effective March 1, a separate Industrial Division was formed within the Company, with the responsibility for co-ordinating all activities relating to the manufacture and sale of industrial products. This is a further step in our programme to increase sales of these products, either through internal growth or acquisition, to \$100 million of sales per year by 1985.

In his speech to the Annual Meeting of Shareholders in November, 1980, Mr. Vern Oechsle, Executive Vice President and General Manager, forecasted an increase in sales of 10% over the corresponding period last year. Our present schedules indicate that this forecast is still appropriate for the months ahead. We are confident that the productivity improvement programmes that we are implementing will result in increases in net income in the future.

Due to the change in the Company's fiscal year, the Board of Directors will not be determining the next quarterly dividend until their meeting in April. At the present time, it is the Company's intention to maintain the current dividend payment dates.



G.D. DORESCO, Chairman



S.J. MORCOTT, President





HAYES-DANA INC.

## BALANCE SHEET

### ASSETS

	December 31		August 31
	1980	1979 (unaudited)	1980
CURRENT ASSETS:			
Cash	\$ 635,000	\$ 520,000	\$ 357,000
Accounts receivable	24,382,000	26,185,000	23,402,000
Recoverable income taxes	1,246,000	1,518,000	1,936,000
Inventories (note 2)	47,617,000	50,699,000	49,188,000
Prepaid expenses	152,000	92,000	564,000
	<u>74,032,000</u>	<u>79,014,000</u>	<u>75,447,000</u>
FIXED ASSETS (note 3):			
Land and improvements to land	2,266,000	2,288,000	2,296,000
Buildings	22,681,000	22,948,000	22,756,000
Machinery and equipment	78,205,000	74,418,000	77,081,000
	<u>103,152,000</u>	<u>99,654,000</u>	<u>102,133,000</u>
Less — Accumulated depreciation	40,124,000	33,281,000	37,644,000
	<u>63,028,000</u>	<u>66,373,000</u>	<u>64,489,000</u>
OTHER ASSETS:			
Investment in corporate joint venture	229,000	199,000	214,000
Unamortized deferred expenses (note 4)	2,883,000	1,080,000	3,408,000
Goodwill	1,199,000	965,000	1,261,000
	<u>4,311,000</u>	<u>2,244,000</u>	<u>4,883,000</u>
	<u>\$141,371,000</u>	<u>\$147,631,000</u>	<u>\$144,819,000</u>

# **LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>December 31</b>		<b>August 31</b>
	<b>1980</b>	<b>1979</b>	<b>1980</b>
		(unaudited)	
<b>CURRENT LIABILITIES:</b>			
Bank advances and notes payable	<b>\$22,892,000</b>	\$32,848,000	\$24,451,000
Notes payable to Dana Corporation and affiliate	<b>157,000</b>	11,350,000	700,000
Accounts payable and accrued liabilities	<b>19,259,000</b>	21,226,000	17,075,000
Dividend payable	<b>731,000</b>	728,000	730,000
Due to Dana Corporation and affiliates	<b>6,152,000</b>	5,382,000	6,654,000
	<b>49,191,000</b>	71,534,000	49,610,000
<b>LONG-TERM DEBT</b> (note 5)	<b>22,708,000</b>	9,023,000	24,220,000
<b>DEFERRED INCOME TAXES</b>	<b>16,716,000</b>	15,230,000	16,957,000
<b>SHAREHOLDERS' EQUITY:</b> (notes 6 & 7)			
Common shares	<b>9,956,000</b>	9,777,000	9,867,000
Retained earnings	<b>42,800,000</b>	42,067,000	44,165,000
	<b>52,756,000</b>	51,844,000	54,032,000
<b>APPROVED BY THE BOARD:</b> G.D. DORESCO, Director S.J. MORCOTT, Director	<b>\$141,371,000</b>	\$147,631,000	\$144,819,000

## HAYES-DANA INC.

## STATEMENT OF

## INCOME AND RETAINED EARNINGS

	For the period		For
	September 1 to December 31		the year ended
	1980	1979	August 31
		(unaudited)	1980
Sales	\$ 71,781,000	\$ 73,923,000	\$202,197,000
Other income	294,000	228,000	1,124,000
	<u>72,075,000</u>	<u>74,151,000</u>	<u>203,321,000</u>
Costs and expenses:			
Cost of sales	65,151,000	65,680,000	176,133,000
Selling, general and administrative expenses	4,938,000	4,383,000	13,443,000
Interest on long-term debt	950,000	378,000	1,953,000
Other interest	915,000	1,900,000	4,969,000
	<u>71,954,000</u>	<u>72,341,000</u>	<u>196,498,000</u>
Income before income taxes	121,000	1,810,000	6,823,000
Income taxes	25,000	652,000	2,107,000
Net income	<u>96,000</u>	<u>1,158,000</u>	<u>4,716,000</u>
Retained earnings at beginning of period	44,165,000	42,368,000	42,368,000
	44,261,000	43,526,000	47,084,000
Dividends	1,461,000	1,459,000	2,919,000
Retained earnings at end of period	<u>\$ 42,800,000</u>	<u>\$ 42,067,000</u>	<u>\$ 44,165,000</u>
Net income per share	\$ .02	\$ .19	\$ .78
Dividends per share	\$ .24	\$ .24	\$ .48



## STATEMENT OF

## CHANGES IN FINANCIAL POSITION

FINANCIAL RESOURCES WERE PROVIDED BY:	For the period September 1 to December 31		For the year ended
	1980	1979 (unaudited)	August 31 1980
Net income	\$ 96,000	\$ 1,158,000	\$ 4,716,000
Charges (credits) not requiring current funds —			
Amortization of goodwill and deferred expenses	587,000	49,000	158,000
Depreciation	2,784,000	2,520,000	7,578,000
Deferred income taxes	(241,000)	698,000	2,425,000
Working capital provided by operations	3,226,000	4,425,000	14,877,000
Increase in long-term debt	—	8,023,000	23,220,000
Common stock issued	89,000	95,000	185,000
	3,315,000	12,543,000	38,282,000
FINANCIAL RESOURCES WERE USED FOR:			
Additions to fixed assets (net)	1,323,000	4,913,000	7,616,000
Businesses acquired, less current assets at acquisition (December 31, 1979 - \$2,271,000 (unaudited); August 31, 1980 - \$2,409,000) (note 8)	—	4,953,000	5,424,000
Dividends	1,461,000	1,459,000	2,919,000
Decrease in long-term debt	1,512,000	—	—
Increase in other assets, before amortization of goodwill and deferred expenses	15,000	1,290,000	4,038,000
	4,311,000	12,615,000	19,997,000
Increase (decrease) in working capital	(996,000)	(72,000)	18,285,000
Working capital at beginning of period	25,837,000	7,552,000	7,552,000
Working capital at end of period	\$24,841,000	\$ 7,480,000	\$25,837,000



## NOTES TO FINANCIAL STATEMENTS — DECEMBER 31, 1980

### 1. SUMMARY OF ACCOUNTING POLICIES:

The significant accounting practices and policies employed in the preparation of the financial statements of Hayes-Dana Inc. are summarized below:

#### Inventories-

Inventories are valued at the lower of cost and net realizable value with cost determined on a first-in, first-out basis.

#### Fixed assets-

Fixed assets are stated at cost. Depreciation is computed over the estimated useful lives of property, plant and equipment using the straight-line method at rates of 2-1/2% and 5% on buildings and generally 10% on machinery and equipment.

#### Investment in corporate joint venture-

The Corporation's investment in the corporate joint venture is carried at cost plus equity in its undistributed net income.

#### Unamortized deferred expenses-

It is the Corporation's policy to defer expenditures incurred on major expansions and model changeovers and to amortize such expenditures over a reasonably short period.

Costs incurred in issuing long-term debt are amortized over the term of the applicable debt issue.

#### Goodwill-

Goodwill arising from acquisitions is being amortized on a straight-line basis over ten year periods.

#### Research and development-

All research and development costs are expensed as incurred.

#### Translation of foreign currencies-

Foreign currency balances and transactions are translated into Canadian dollars as follows: long-term assets and liabilities at exchange rates in effect at dates of acquisition; current assets and liabilities at rates in effect at the appropriate period end; revenue and expenses at average rates for the period. Unrealized gains on translation of foreign currency are deferred and carried forward on the balance sheet; unrealized losses are charged to income. An unrealized gain of \$1,184,000 as at December 31, 1980 (December 31, 1979 - \$1,415,000 (unaudited); August 31, 1980 - \$1,145,000) resulting from the translation of net current balances at period end rates of exchange and from the translation of foreign currency exchange contracts at period end forward rates of exchange was deferred in the accounts.

#### Income taxes-

The Corporation follows the tax allocation basis of accounting for taxes on income whereby deferred income taxes are provided on all significant timing differences between accounting and taxable income, primarily accelerated depreciation claimed for tax purposes in excess of amounts recorded in the accounts. The Corporation uses the "flow-through" method of accounting for investment tax credits as a reduction of the provision for federal income taxes.

#### Net income per share-

Net income per share is computed on the basis of the weighted average number of shares outstanding during the period. Shares reserved for issuance under the stock option plans would not materially dilute this figure.

### 2. INVENTORIES:

	December 31 1980	1979 (unaudited)	August 31 1980
Raw materials	\$ 9,675,000	\$11,878,000	\$ 9,742,000
Work-in-process and finished goods	37,942,000	38,821,000	39,446,000
	<u>\$47,617,000</u>	<u>\$50,699,000</u>	<u>\$49,188,000</u>

### 3. FIXED ASSETS:

The Corporation is considering the disposition of certain plant and equipment which have a net book value of approximately \$13,000,000. It is anticipated that the net proceeds from the contemplated sale would approximate net book value.

### 4. UNAMORTIZED DEFERRED EXPENSES:

	December 31 1980	1979 (unaudited)	August 31 1980
Debenture issue costs	\$ 297,000	\$ —	\$ 305,000
Model change- over costs	2,586,000	1,080,000	3,103,000
	<u>\$2,883,000</u>	<u>\$1,080,000</u>	<u>\$3,408,000</u>

For the year ended August 31, 1980 model changeover costs pertaining to a new truck frame amounted to \$4,654,000. The Corporation expensed \$687,000 (unaudited) in the four month period ended December 31, 1979, \$1,551,000 in the twelve month period ended August 31, 1980 and amortized to expense \$517,000 in the four month period ended December 31, 1980. The balance will be amortized on a straight-line basis over the next twenty months.



## 5. LONG-TERM DEBT:

	December 31 1980	December 31 1979 (unaudited)	August 31 1980
a) 12-3/4% Debentures Series A maturing April 15, 2000 and redeemable after April 15, 1985. Mandatory sinking fund payments of \$675,000 per annum commence in 1985 with the Corporation having the right, cumulative for one year, to make optional additional payments of up to \$270,000 per annum.	\$13,500,000	\$ —	\$13,500,000
b) Note payable to The Weatherhead Company of Canada, Ltd., maturing February 18, 1983. Interest is payable at the prime rate of the Corporation's principal banker.	7,949,000	7,949,000	7,949,000
c) Note payable to the Ontario Development Corporation. The loan is interest free until October 15, 1983. Thereafter, interest will be payable at the rate of 11-3/4% per annum and monthly payments of principal and interest of \$21,979 will be made until the loan matures on October 15, 1988.	1,000,000	1,000,000	1,000,000
d) Note payable to the Province of Ontario.	—	—	1,500,000
e) Obligation under capital leases.	259,000	74,000	271,000
	<u>\$22,708,000</u>	<u>\$9,023,000</u>	<u>\$24,220,000</u>

## 6. STATED CAPITAL:

The Corporation has an unlimited number of authorized common and preference shares and there is no limit to the consideration to be received by it upon issue of such shares. The Corporation has an optional stock dividend policy whereby the shareholders have the right to receive dividends in stock rather than cash.

	December 31 1980	December 31 1979 (unaudited)	August 31 1980
Total number of common shares issued and outstanding	<u>6,093,681</u>	<u>6,070,921</u>	<u>6,082,330</u>
During the period, the Corporation issued common shares and received proceeds pursuant to:			
Optional stock dividend policy	8,766	6,752	15,391
Exercise of employees' stock options	<u>2,585</u>	<u>5,320</u>	<u>7,970</u>
Total number of shares issued	<u>11,351</u>	<u>12,072</u>	<u>23,361</u>
Total proceeds received	<u>\$ 89,000</u>	<u>\$95,000</u>	<u>\$185,000</u>

## 7. STOCK OPTIONS:

The Employees' Stock Option Plans provided for options to be granted to key employees to purchase up to 310,250 shares of the Corporation's common shares at a price equal to the market value of the shares at the date granted. As at December 31, 1980, there were 229,844 shares reserved for issuance under the Plans. During the four month period ended December 31, 1980, 2,585 options were exercised for cash of \$14,000 and options on 50,200 shares were granted.

At December 31, 1980, the following options to purchase were outstanding:

Expiry date	Option price per share	Number of shares at December 31 1980	Number of shares at August 31 1979 (unaudited)	Number of shares at August 31 1980
Dec. 16, 1981	\$ 5.625	24,860	27,850	26,380
Sept. 13, 1982	5.125	31,025	34,400	32,850
Sept. 27, 1983	10.000	41,175	43,175	43,175
Sept. 24, 1984	10.000	41,900	44,000	44,000
Sept. 24, 1985	9.500	50,200	—	—
		<u>189,160</u>	<u>149,425</u>	<u>146,405</u>

Of these, 59,805 share options were held by nine officers, of whom two are directors.

## 8. BUSINESSES ACQUIRED:

Effective September 1, 1979 the Corporation acquired all of the operating assets of The Weatherhead Company of Canada, Ltd. except for inventories which were acquired on August 31, 1979. With this acquisition, the Corporation produces and sells fluid power components and assemblies used in the manufacture and maintenance of industrial equipment, passenger cars and trucks.

Effective July 1, 1980, the Corporation acquired substantially all of the operating assets of Lo-Rez Vibration Control Ltd. As a result, the Corporation designs, manufactures and sells vibration isolators and flexible couplings for the control of torsional vibration.

The businesses acquired, which were accounted for by the purchase method, are summarized as follows:

	August 31
	1980
Assets acquired:	
Current assets (excluding inventories	\$2,409,000
acquired August 31, 1979)	
Fixed assets	5,424,000
	7,833,000
Goodwill	590,000
Consideration given	\$ 8,423,000
Represented by:	
Cash	\$ 474,000
Long-term note payable	7,949,000
	\$ 8,423,000

## 9. FISCAL YEAR-END:

During the period, the Corporation changed its fiscal year-end from August 31 to December 31.

## 10. RELATED PARTY TRANSACTIONS:

Under long standing arrangements, the Corporation obtains, at rates and terms which the Corporation believes are fair and equitable, advice, products and services from Dana Corporation, its parent company. For the four month period ended December 31, 1980 both the Corporation's sales to and purchases from Dana Corporation represented 11% of the corporation's total sales and cost of sales for the period.

## 11. SALES TO MAJOR VEHICLE MANUFACTURERS:

The only non-related customer which accounted for more than 10% of the Corporation's total sales for the four month

period ended December 31, 1980 was Ford Motor Company at 33% (December 31, 1979 - 23% (unaudited); August 31, 1980 - 24%). Sales to General Motors, International Harvester and Chrysler Corporation represented 9%, 5% and 3% respectively.

## 12. PENSION PLANS:

Pension plan expenses for the four month period ended December 31, 1980 amounted to \$1,744,000 (December 31, 1979 - \$1,160,000 (unaudited); August 31, 1980 - \$3,740,000).

Some of the Corporation's pension plans were changed during 1980 to provide certain pension improvements for the employees. After giving effect to the changes, the unfunded past service liability is estimated by independent actuaries to be approximately \$25,831,000 (December 31, 1979 - \$14,608,000 (unaudited); August 31, 1980 - \$26,214,000) of which \$22,084,000 represents employee vested benefits (December 31, 1979 - \$12,035,000 (unaudited); August 31, 1980 - \$22,666,000). This cost will be amortized and funded over not more than fifteen years.

## 13. COMMITMENTS:

At December 31, 1980, the Corporation was committed under non-cancellable leases for the following future minimum lease payments:

1981	\$1,179,000
1982	1,052,000
1983	858,000
1984	632,000
1985	447,000
Thereafter	1,061,000
Total future minimum lease payments	\$5,229,000

Outstanding commitments relating to the purchase of machinery and equipment amounted to approximately \$733,000 at December 31, 1980.

## 14. COMPARATIVE FIGURES:

Certain of the August 31, 1980 comparative amounts have been restated to conform with the presentation adopted for the period ended December 31, 1980.

In addition, appropriate period end closing adjustments were made to the December 31, 1979 unaudited balances since certain expenses relating to the four month period ended December 31, 1979 had previously been expensed over the twelve month period ended August 31, 1980.

### COMMON SHARES

- TRANSFER AGENT: CANADA PERMANENT TRUST COMPANY, TORONTO, ONTARIO
- CO-TRANSFER AGENT: OHIO CITIZENS TRUST COMPANY, TOLEDO, OHIO
- LISTED: TORONTO STOCK EXCHANGE, SYMBOL - HAY

### SERIES A DEBENTURES

- REGISTRAR: CANADA TRUST COMPANY, TORONTO, ONTARIO



## 15. SEGMENTED INFORMATION:

The Corporation operates principally in two business segments: Vehicular and Industrial. The Vehicular segment consists primarily of the manufacture and marketing of axle housings, truck frames, drive shafts, universal joints, clutches and engine parts. The Industrial segment comprises the manufacture and marketing of various products, including many for off-highway motor vehicles.

	For the four months ended December 31 1980	1979 (unaudited)	For the year ended August 31 1980
Sales:			
Vehicular	\$ 64,568,000	\$ 63,264,000	\$173,266,000
Industrial	7,213,000	10,659,000	28,931,000
	<u>\$ 71,781,000</u>	<u>\$ 73,923,000</u>	<u>\$202,197,000</u>
Segment operating profit:			
Vehicular	\$ 2,042,000	\$ 3,590,000	\$ 12,252,000
Industrial	703,000	1,292,000	3,843,000
	<u>2,745,000</u>	<u>4,882,000</u>	<u>16,095,000</u>
General corporate expense	(759,000)	(794,000)	(2,350,000)
Interest expense	(1,865,000)	(2,278,000)	(6,922,000)
Income taxes	(25,000)	(652,000)	(2,107,000)
Net income	<u>\$ 96,000</u>	<u>\$ 1,158,000</u>	<u>\$ 4,716,000</u>
Identifiable assets:			
Vehicular	\$122,136,000	\$126,832,000	\$124,550,000
Industrial	15,810,000	17,209,000	16,397,000
Corporate	3,425,000	3,590,000	3,872,000
	<u>\$141,371,000</u>	<u>\$147,631,000</u>	<u>\$144,819,000</u>
Additions to fixed assets (net):			
Vehicular	\$ 1,161,000	\$ 4,561,000	\$ 6,978,000
Industrial	243,000	164,000	412,000
Corporate	(81,000)	188,000	226,000
	<u>\$ 1,323,000</u>	<u>\$ 4,913,000</u>	<u>\$ 7,616,000</u>
Businesses acquired less current assets at acquisition (note 8):			
Vehicular	\$ —	\$ 2,824,000	\$ 2,824,000
Industrial	—	2,129,000	2,600,000
	<u>\$ —</u>	<u>\$ 4,953,000</u>	<u>\$ 5,424,000</u>
Depreciation:			
Vehicular	\$ 2,520,000	\$ 2,287,000	\$ 6,818,000
Industrial	195,000	188,000	554,000
Corporate	69,000	45,000	206,000
	<u>\$ 2,784,000</u>	<u>\$ 2,520,000</u>	<u>\$ 7,578,000</u>
Export sales	<u>\$ 31,661,000</u>	<u>\$ 34,351,000</u>	<u>\$ 83,775,000</u>

## AUDITORS' REPORT

### To the Shareholders of Hayes-Dana Inc.:

We have examined the balance sheet of Hayes-Dana Inc. as at December 31, 1980 and the statements of income and retained earnings and changes in financial position for the four month period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

**Hamilton, Ontario**  
**March 7, 1981**

**PRICE WATERHOUSE & CO.**  
**Chartered Accountants**





OUR GOAL IS TO BE THE LEADING CANADIAN CORPORATION  
TURNING POWER INTO PROGRESS.